D.T.E. 02-55

Petition of Fitchburg Gas and Electric Light Company for Approval of a Firm Gas Transportation Agreement between Fitchburg Gas and Tennessee Pipeline Company pursuant to G.L. c. 164, § 94A.

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I. INTRODUCTION

On September 18, 2002, Fitchburg Gas and Electric Light Company ("Fitchburg" or "Company"), pursuant to G.L. c. 164, §§ 76(I) and 94A, submitted a petition to the Department of Telecommunications and Energy ("Department") for approval of a firm transportation agreement between Fitchburg and the Tennessee Gas Pipeline Company ("Tennessee"). This case has been docketed as D.T.E. 02-55.

The Division of Energy Resources ("DOER") filed a Petition to Intervene, and Keyspan Energy Delivery ("Keyspan") filed a Petition for Limited Participant Status. Both motions were granted. On October 29, 2002, pursuant to notice duly issued, the Department conducted a public hearing and an evidentiary hearing. The Company sponsored the testimony of David B. Doskocil, team leader for the energy contracts group at Unitil Service Group. On November 7, 2002, DOER filed a brief, and Fitchburg filed a reply brief on November 15, 2002. The record in this proceeding consists of 24 exhibits and two record requests.

II. DESCRIPTION OF THE COMPANY'S PROPOSAL

The Company submitted for approval an agreement with Tennessee for a Zone 6-to-6 firm short haul transportation contract of 550 Dth/day for a thirteen month term beginning on December 1, 2002 (Exh. FGE-DBD-1). This agreement will replace a Zone 5-to-6 firm transportation agreement with Tennessee for 534 Dth/day from Niagara, NY to the Fitchburg city gate (Exhs. FGE-DBD-3; FGE-DBD-2). That agreement expires January 15, 2003 (Exh. FGE-DBD-2). According to the Company, the proposed Zone 6-to-6 agreement will reduce city gate delivery costs while providing access to new gas supply options (Exh. FGE-DBD-1, at 2). Fitchburg further stated that the 45 day overlap of the two contracts will provide the

Company with adequate pipeline supply to reduce reliance on liquid natural gas ("LNG") for peak supply (id. at 10).

The Company stated that the agreement is consistent with the portfolio objectives established in the Company's most-recent Long Range Forecast and Supply Plan, as approved by the Department in Fitchburg Gas and Electric Light Company, D.T.E. 00-42 (2000), and it compares favorably to the range of alternatives reasonably available to the Company and its customers (Exh. FGE-DBD-1). To perform its cost comparison, the Company analyzed the economics of the agreement by comparing the costs of procuring supplies from different supply zones along the Tennessee pipeline (Exh. FGE-DBD-5). The Company's analysis shows that the combined distribution and commodity costs under the proposed agreement are less than the costs of transporting gas from zones 5 and 0 (id.). The zone 6-to-6 capacity fixed charges are approximately thirty-six percent (36%) less than zone 5-to-6 capacity charges, and approximately twenty percent (20%) less than zone 0-to-6 capacity charges (id.). The Company adds that a further potential benefit of the zone 6-to-6 capacity is that during the summer months there have been times when delivered supplies from Dracut have cost less than the delivered supplies from all other zones (id.). Pursuant to the Company's Terms and Conditions, Fitchburg notified marketers of the upcoming resource decisions via email and by posting the information on the Company's website beginning in August 2001 (Exh. DBD-1, at 11).

III. STANDARD OF REVIEW

In evaluating a gas utility's resource options for the acquisition of commodity resources as well as for the acquisition of capacity under Section 94A, the Department examines whether the acquisition of the resource is consistent with the public interest. Commonwealth Gas Company, D.P.U. 94-174-A at 27 (1996). In order to demonstrate that the proposed acquisition of a resource that provides commodity and/or incremental resources is consistent with the public interest, a local distribution company ("LDC") must show that the acquisition is consistent with the Company's portfolio objectives, and compares favorably to the range of alternative options reasonably available to the Company and its customers, including releasing capacity to customers migrating to transportation, at the time of the acquisition or contract renegotiation. Id.

In establishing that a resource is consistent with the company's portfolio objectives, the company may refer to portfolio objectives established in a recently approved resource plan or in a recent review of supply contracts under G.L. c. 164, § 94A, or may describe its objectives in the filing accompanying the proposed resource. Id. In comparing the proposed resource acquisition to current market offerings, the Department examines relevant price and non-price attributes of each contract to ensure a contribution to the strength of the overall supply portfolio. Id. at 28. As part of the review of relevant price and non-price attributes, the Department considers whether the pricing terms are competitive with those for the broad range of capacity, storage and commodity options that were available to the LDC at the time of the acquisition, as well as with those opportunities that were available to other LDCs in the region. Id. In addition, the Department determines whether the acquisition satisfies the LDC's non-price objectives including, but not limited to, flexibility of nominations and reliability and diversity of supplies. Id. at 29.

IV. POSITIONS OF THE PARTIES

A. Meetings with Marketers

1. Division of Energy Resources

DOER asserts that the Company received no input from marketers regarding the disposition of the Tennessee capacity subject to review in this proceeding (DOER Brief at 2). DOER recommends that each natural gas LDC be required by the Department to hold one mandatory annual face-to-face meeting with marketers to promote more effective dialogue about resource plans, and to ensure awareness by all market participants of upcoming supply and capacity resource decisions (id.). DOER further recommends that the Department require Fitchburg to insert language in its Terms and Conditions that requires such an annual meeting with marketers be held (id. at 3).

2. The Company

The Company argues that DOER's assertion that Fitchburg received no "input" does not necessarily mean that it had no contact with marketers (Company Reply Brief at 3). The Company explains that it has contact with marketers on a regular basis concerning capacity decisions, but the marketers had no comments on the capacity decision in this instance (id.).

The Company is agreeable to holding an annual face-to-face informational meeting with marketers to discuss its resource portfolio, resource plans, and any future supply and capacity resource decisions (Company Reply Brief at 4). The Company agrees with DOER that such a meeting should be held before the beginning of the winter heating season (id.). However, the Company emphasizes that the Terms and Conditions, which would address any such provision, are standard terms and conditions that resulted from the collaborative process in

NOI Gas Unbundling Rates, D.T.E. 98-32 (1998). Fitchburg, therefore, recommends that this issue be addressed in a generic manner for all LDCs (id. at 5).

B. Request For Proposals

1. Division of Energy Resources

DOER contends that LDC customers are better served when an LDC makes capacity and supply decisions on a combined basis, unless the LDC can demonstrate a compelling reason for separate treatment (DOER Brief at 5). DOER further contends that combined decisions would more accurately reflect transportation and basis costs, which are critical when comparing potential alternatives (id. at 3). Therefore, DOER asserts that the Company should have issued a gas supply request for proposal ("RFP") before it made the final decision on Tennessee capacity, so that Fitchburg would have been able to analyze firm supply alternatives without the need for estimation (id. at 4).

2. The Company

The Company argues that any general requirement that combined RFPs for gas supply be issued whenever it makes future long term capacity and resource decisions is not practical and is not likely to lead to different resource decisions (Company Reply Brief at 5-6). The Company argues that combined RFPs are inappropriate because the market has fundamentally changed since third party marketers use Fitchburg's capacity, but not necessarily its supply (id.). Hence, the Company contends that it must contract for gas supply in a much more flexible manner than in the past (id. at 6). Fitchburg further argues that if a gas supply RFP were issued at the same time the Tennessee capacity decisions were made, and the basis differential were adjusted to more accurately reflect the term of the four-month gas supply contract with Sprague,[1] the basis differential between zones would have remained relatively unchanged. Thus, the Company contends that the capacity decision would not have changed (id. at 7).

C. SENDOUT Model

1. Division of Energy Resources

DOER advocates that the SENDOUT[2] model should be used as a tool to help decide which alternative has the lowest delivered cost rather than relying on the static stand-alone cost analysis found in Exhibit FGE-DBD-5 (DOER Brief at 5). DOER also urges the Department to require Fitchburg to use the SENDOUT model in the future when making long-term resource decisions (id. at 6).

2. The Company

The Company argues that the Department should dismiss any suggestion that the use of any one commercially available quantitative tool, such as the SENDOUT model, be imposed on Fitchburg, or any LDC, for all its resource decisions (Company Reply Brief at 8). The Company argues that such interference with the business judgment and reasoned discretion of management would be inappropriate and inconsistent with Department precedent (id. at 9). Fitchburg states that the analysis performed by Mr. Doskocil provided a reasoned basis to

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1 On August 1, 2002 the Company entered into a gas supply contract with Sprague Trading that went into effect December 1, 2002 (Exhs. FGE-DBD-1, at 9; FGE-DBD-6).

2 SENDOUT is a commercially available optimization model used by the Company to distinguish between many significantly different capacity and supply alternatives, and select the least-cost option.

justify the decisions made, taking into consideration all the factors that were known at the time (id. at 8).

V. ANALYSIS AND FINDINGS

The Department notes that it approved Fitchburg's supply planning process in its most recent forecast and supply plan, Fitchburg Gas and Electric Light Company, D.T.E. 00-42 (2001). At that time, the Department deemed Fitchburg's portfolio of resources to be adequate to meet forecasted sendout requirements (id. at 22). Because the level of citygate deliverability established in D.T.E. 00-42 is maintained through the replacement of one contract for Tennessee capacity with another Tennessee capacity contract, the Department finds the Company's proposal to be consistent with the portfolio objectives approved by the Department in Fitchburg's most recent forecast and supply plan.

The Company has also demonstrated that the proposed resource acquisition compares favorably to other resources in the Company's portfolio in terms of both price and non-price characteristics. The negotiated rate for the proposed agreement is competitive with other resource alternatives. In addition, the proposed agreement significantly increases the flexibility and diversity of gas deliveries to the pipeline serving the Company's service area. The Department finds that access to Canadian gas supplies provides the Company with a more diverse supply portfolio and greater flexibility to meet customer requirements. Therefore, the Department finds that the agreement is in the public interest.

DOER has made three proposals which the Department will now address. First, DOER has proposed that the Company's Terms and Conditions be amended to include language requiring the Company to hold an annual face-to-face meeting with marketers active in Fitchburg's service territory. The Department has previously addressed an identical request by DOER, and we reaffirm that decision here. See Berkshire Gas Company, D.T.E. 02-56 (2002). In that decision, the Department found that the Massachusetts Gas Unbundling Collaborative is the appropriate forum to address whether a revision to the Terms and Conditions is appropriate for all LDCs (id. at 12). The Department also indicated that marketers have the opportunity to intervene in Forecast and Supply Plan proceedings submitted pursuant to G.L. c. 164 § 69I, as well as capacity and commodity acquisition proceedings submitted pursuant to G.L. c 164 § 94A (id.). Finally, the Department notes that pursuant to section 13.2 of the Company's current Terms and Conditions, Fitchburg is obligated to notify marketers of upcoming capacity changes. There is no indication that the Company is in violation of its existing Terms and Conditions, since the Company did notify marketers of the proposed change.

Regarding DOER's proposal to combine commodity and capacity RFPs, the Department finds that DOER has not provided any evidence to demonstrate that its proposal would provide any benefits to the Company's ratepayers. The Department further notes that capacity and commodity acquisitions have become two distinct processes since the issuance of FERC Order 636.

Finally, DOER requests that Fitchburg be required to use the SENDOUT model to evaluate the alternatives available to the Company. Computer models, such as SENDOUT, are useful tools that assist LDCs in complex capacity and/or commodity acquisition decisions. The Company used SENDOUT in its most recently approved Forecast and Supply Plan. However, we note that the Company's process for selecting an alternative to the expiring contracts was not a complex one, and did not require the use of SENDOUT. DOER has not provided any insight as to how the use of SENDOUT would have enhanced the process for replacing the expiring contract for short haul Tennessee capacity. The Department has found, above, that Fitchburg's process for selecting the alternative to the expiring Tennessee contract is in the public interest.

The Department concludes that the acquisition of firm capacity through this agreement is consistent with the public interest and, therefore, approves the Firm Transportation agreement between Fitchburg and Tennessee.

VI. ORDER

Accordingly, after due notice, hearing and consideration, it is

ORDERED: That the agreement for firm gas transportation between Fitchburg Gas and Electric Light Company and Tennessee Gas Pipeline Company, filed on September 18, 2002, is approved.

By Order of the Department,

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Paul B. Vasington, Chairman

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James Connelly, Commissioner

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W. Robert Keating, Commissioner

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Eugene J. Sullivan, Jr., Commissioner

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Deirdre K. Manning, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).